

The ABC's of a Financial Audit

1. Financial Audits Performed by the Office of the Auditor General
 - a. Financial Statement Audits (e.g. SOMCAFR, Homeowner Construction Lien Recovery Fund)
 - b. Single Audits
2. Independent Auditor's Report (See Pages 8 & 9)
 - a. Scope Paragraph (1st Par. Page 8)
 - b. Conduct of Audit (2nd Par. Page 8)
 - 1) Auditing standards
 - 2) Financial Statements
 - a) Balance Sheet
 - b) Operating Statement
 - c) Budget to Actual (only budgeted funds)
 - d) Cash Flow (only proprietary funds)
 - e) Notes to the Financial Statements
 - f) Supplemental
 - c. Opinion Paragraph (1st Par. Page 9)
 - 1) Financial Statements present fairly
 - a) Assertions about classes of transactions and events for the period under audit: (Applicable to Operating statement)
 - (1) Occurrence. Transactions and events that have been recorded have occurred and pertain to the entity.
 - (2) Completeness. All transactions and events that should have been recorded have been recorded.
 - (3) Accuracy. Amounts and other data relating to recorded transactions and events have been recorded appropriately.
 - (4) Cutoff. Transactions and events have been recorded in the correct accounting period.
 - (5) Classification. Transactions and events have been recorded in the proper accounts.
 - b) Assertions about account balances at the period end: (Applicable to Balance Sheet)
 - (1) Existence. Assets, liabilities, and equity interests exist.
 - (2) Rights and obligations. The entity holds or controls the rights to assets, and liabilities are the obligations of the entity.
 - (3) Completeness. All assets, liabilities, and equity interests that should have been recorded have been recorded.
 - (4) Valuation and allocation. Assets, liabilities, and equity interests are included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.
 - c) Assertions about presentation and disclosure:

- (1) Occurrence and rights and obligations. Disclosed events and transactions have occurred and pertain to the entity.
 - (2) Completeness. All disclosures that should have been included in the financial statements have been included.
 - (3) Classification and understandability. Financial information is appropriately presented and described and disclosures are clearly expressed.
 - (4) Accuracy and valuation. Financial and other information are disclosed fairly and at appropriate amounts.
- 2) In all material respects
- 3) In conformity with accounting principles generally accepted in the U.S.
3. Audit process
 - a. Audit Planning
 - 1) Obtain understanding of entity, environment and internal control
 - 2) Assess Risk of Material Misstatement
 - 3) Assess Risk of Fraud
 - 4) Design audit procedures responsive to risk assessment
 - b. Perform Audit Procedures
 - 1) Test Operating Effectiveness of Internal Controls where necessary
 - 2) Substantive tests for relevant assertions
 - a) Analytical Review
 - b) Tests of Transactions
 - (1) Audit Sampling
 - (2) Confirmation
 - (3) 100% examination
 - c) Agreeing financial statements and notes to underlying accounting records.
 - c. Evaluate sufficiency of audit evidence
 - d. Issue Independent Auditor's Report
 - 1) Unqualified Opinion-"Clean"
 - 2) Qualified Opinion- One or more items materially misstated
 - 3) Adverse Opinion-Financial Statements as a whole materially misstated
4. What to look for in Audit Reports
 - a. Read the Report Summary. It identifies:
 - 1) What we look at and period audited
 - 2) Type of auditors opinion
 - 3) Internal control deficiencies
 - 4) Instances of non-compliance
 - 5) Background of entity
 - 6) Agency Response to findings
 - b. Independent Auditor's Report
 - c. Management Discussion and Analysis (UNAUDITED-Financial Analysis, Overview of Activities, Economic Outlook, etc.)
 - d. Financial Statements

- 1) Balance Sheet (Assets, Liabilities, Fund Balance/Reserves)
- 2) Operating Statement (Revenues, Expenditures, Other Sources/Uses, Excess of Revenue over Expenditures, Beginning/Ending Fund Balance)
- 3) Budget to Actual (only budgeted funds)
- 4) Cash Flow (only proprietary funds)
- e. Notes to the Financial Statements (Integral Part of Financial Statements. Disclose various information material to financial statements. E.g. Accounting Changes, Pension and Other Obligations, Types of Investments/Risks, Litigation, Subsequent Events, etc.)
- f. Supplemental Schedules (more detailed)
- g. Report on Internal Control and Compliance
- h. Findings (Condition, Effect, Criteria, Cause, Recommendation)

Financial Audits including the provisions of the Single Audit Act

1. Designed to meet the needs of all financial report users, including federal grantor agencies.
2. Requirements for single audits
 - a. Defined by the federal regulations, specifically A-133
 - b. State requirements – Act 431
 - c. Apply to all recipients of federal funds, including local governments, school districts, non-profits, etc.
 - d. Major Programs
3. The audit determines:
 - a. If financial statements and/or schedules are fairly presented.
 - b. Considers internal control over financial reporting and federal program compliance.
 - c. Considers state compliance issues material to the financial statements and/or schedules.
 - d. Assesses compliance with direct and material requirements of major federal programs.
4. Single Audit Compared to Financial Audit
 - a. Independent Auditor's Report on Financial Statement/Schedules
 - b. Department's Statement/Schedules (focus on schedules)
 - i. Schedule of General Fund Revenues and Other Financing Sources
 - ii. Schedule of Sources and Dispositions of General Fund Authorizations
 - iii. Notes to Schedules
 - iv. Supplemental Schedule – Schedule of Expenditure of Federal Awards

- c. Independent Auditors Report on Internal Control and Compliance
 - i. Independent Auditors Report on Internal Control and Compliance Over Financial Reporting and on Compliance and Other Matters
 - ii. Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133
- d. Findings and Question Costs
- e. Prior Audit Findings
- f. Corrective Action Plan